Farmlands - a great way into the burgeoning farming sector

Alan McMahon of Colliers International, Australasia's largest commercial real estate company, says that finding a way to participate in the industry's growth is not necessarily about going to agricultural college but about considering all the available investment options:

At a time when the planets are moving into alignment across the primary sector, leading to significantly improved returns for participants, investors are looking to find ways to access the strengthening prospects of the sector without having to become a farmer.

Globally, prices for many agricultural commodities are currently at or near historic highs. Scoured wool prices are up 50 per cent over the past six months to levels not seen in 20 years. The wool price trend points to $250 million more income for New Zealand in 2011. Sheep meat and beef prices are considerably higher. Lamb prices are up $30 to $40 on a year ago.

Dairy farmers are also enjoying strong commodity prices, with Rabobank reporting in January that "New Zealand producers benefited from continuously rising milk prices as the 2009-10 season finished nearly 50% higher than initially forecast. This was followed by an opening 2010-11 forecast a further 8% higher." The 2011 payout could be the second highest on record.

Consequently, there is now a consensus appearing that there has been a fundamental shift in global pricing of agricultural commodities, to a sustainably higher level than has been experienced over the last decade.

The Real Estate Institute of New Zealand's rural spokesperson, Peter McDonald, has just gone on record to say that anecdotal evidence suggests banks may be starting to have greater confidence in the rural sector. "Looking forward the improvement in farm returns will be encouraging buyers and motivating vendors to complete transactions. Given that farm sales have been at historical lows for three years there is likely to be pent up pressure on both sides."

However, buying an economical-sized farm is not within the scope of most. Even those who could contemplate such an investment would find it difficult to know where the value lies in the current market due to the low volume of sales recently and uncertainty around the market for farms.

Shares, one alternative, have a 'high risk, high return' reputation, and while shares in rural companies lately in New Zealand have certainly been high risk with a fair degree of volatility, the high return part has been sadly lacking.

So what alternatives are there? One could argue that New Zealand Government Bonds are an investment in the primary sector, at least in part, as that sector makes up a reasonably large chunk of the economy. However, it is in reality a much more than a straightforward exposure to the land, and although bonds are low risk, returns are correspondingly low.

One way of investing in the primary sector is by owning a property leased long-term to a rural services provider.


Farmlands, a co-operative and a leading North Island l rural retailer, is such a company. Ranked 59th in the Deloitte-Management Top 200 Companies List in 2010, Farmlands is owned by its 27,000 shareholders and is on a major growth trajectory, having grown from 27 stores in 2003 to 44 in 2011 - and planning to hit 49 by end of 2012.

As a leading rural merchandise distributor in the North Island, Farmlands has an estimated 25% share of the North Island market, achieving sales revenue of $561 million in 2009-10 and delivering profit distribution to shareholders of $36.1 million compared to $14 million in 2003. Turnover in the current year is forecast to be close to $700 million.

Farmlands is currently offering six of its retail stores on a sale and lease back basis as part of the company’s ongoing new stores rollout strategy. The stores are being sold by auction at 2pm on 8 April at the Sebel Hotel, Tauranga.

Each of the stores - in Putaruru, Taihape, Opunake, Waipapa, Kaitaia and Paeroa - will have a minimum twelve year lease starting from settlement date. Although prices won’t be known until the auction date, seven Farmlands stores sold in late 2009 with the heartland rural stores achieving between $1,250,000 - $1,600,000, at yields between 8.2% and 9.2%.

The similarities in the locations of the stores sold in 2009 and those being offered for sale this year are echoed in a similar economic climate. For example, at that time, the official cash rate was 2.5%, and unemployment was 7.2% compared to 6.8% in December 2009. Interest rates remain low and stable and the ANZ Commodity Price Index is at a record high. This, coupled with a much lower Kiwi currency value, is benefitting the farming sector and Farmlands.

Potential investors will therefore find an attractive range of tangible property options that bridge across into the primary sector, offering a genuine and manageable alternative to other forms of investment in the sector.